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Christopher Koller  
Health Insurance Commissioner  
Department of Business Regulation  
233 Richmond Street  
Providence, RI 02903

Dear Commissioner Koller:

Pursuant to the requirements of R.I. General Laws, Section 27-35-4(g)(1), UnitedHealthcare of New England, Inc. (UHCNE) has submitted for The Department of Business Regulation's (DBR) review and approval a declaration of extraordinary dividends.

The extraordinary dividend proposed for distribution is in the amount of \$36,791,079.

I have outlined below information relative to the request that might assist in your review. First is the issue of solvency, second I have provided some background information on the dividend request and lastly is the significant community investment UHCNE is committing to based on the approval of this request.

### **Solvency**

The National Association of Insurance Commissioners (NAIC) recommends measuring solvency by using Risk Based Capital (RBC). RBC is defined as an amount of capital based on an assessment of risks that an insurer should hold to adequately protect against adverse developments. Generally, action is taken by state regulators if RBC falls below 200% of the Authorized Control Level (ACL). The ACL is equal to 100% of RBC. Although RBC is used to determine a minimum capital level, it is also used to measure the financial strength of a company, and is the standard used by UHCNE.

As of December 31, 2006 UHCNE had an RBC level of 766% of the ACL. If the extraordinary dividend request is approved in the amount of \$36,791,079, the RBC level will be 454% of ACL after the dividend distribution. Given the risk profile of UHCNE, including the guarantee arrangements with UHCNE's parent company, and the reinsurance arrangements it has in place with United Healthcare Insurance Company, this is a more than healthy RBC level with excess surplus.

### **Background**

- Currently, UHCNE is allowed to take out ordinary dividends annually, up to the prior years' net income, without regulatory approval. Extraordinary dividends require the approval of DBR. The extraordinary dividends that currently exist are predominately due to UHCNE's inability to cash out dividends of any kind without DBR approval during the period of time when UHCNE obtained a surplus note from its parent company. Between December 31, 2000 and December 31, 2003, the risk based capital (RBC) level grew from 244% of the Authorized Control Level (ACL) to 605% of ACL. The surplus note and related interest was paid back to the parent on March 19, 2004. Since then the RBC level has continued to grow and UHCNE currently holds excess surplus.
- UHCNE has a parent company guarantee in place if UHCNE falls below a RBC level of 275% of ACL. The RBC is reviewed on a quarterly basis, and the parent company is required to take action within 20 calendar days following the due date of the statutory quarterly financial statements if the RBC is below 275%.

- UHCNE has a reinsurance arrangement with UnitedHealthcare Insurance Company (UHIC) in the form of a quota share arrangement for its commercial business and an excess reinsurance arrangement for its Medicaid business. This further reduces the risk that UHCNE holds.

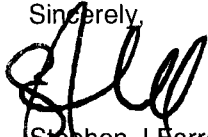
### **Community Investment**

Upon approval of the extraordinary dividend request, UHCNE will undertake a one-time voluntary financial commitment of 10% of the approved extraordinary dividend to support Rhode Island statewide healthcare and technology development initiatives, such as The Health Information Exchange (HIE), Chronic Care Sustainability Initiative Improvement project, Electronic Medical Records, the Rhode Island Quality Institute or other such initiatives which UHCNE believes are designed to improve the efficiency, quality and accessibility of the state's health care system. UHCNE will make the final determination on the selection of projects after consulting with the Office of the Health Insurance Commissioner and an Advisory Committee to be appointed by UHCNE consisting of UHCNE constituencies. The financial commitment will be made over a two year period following the distribution of the extraordinary dividend.

Community investments will be tracked and quarterly financial reports will be provided to the Office of the Health Insurance Commissioner concerning its financial commitments and project funding. In addition, semi annual reports on its funding activities will be provided to the Rhode Island Quality Institute and the Advisory Committee.

I hope this summary assists you in your discussion regarding this request. As always feel free to contact me if you have any further questions or need more information. Thank you for your consideration of this request.

Sincerely,



Stephen J Farrell  
Chief Executive Officer